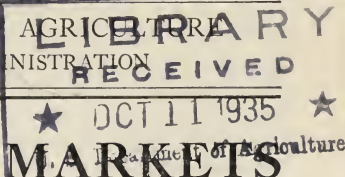


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UNITED STATES DEPARTMENT OF AGRICULTURE
 AGRICULTURAL ADJUSTMENT ADMINISTRATION



WORLD COTTON MARKETS

Does the United States Want to Sell More Cotton for Less Money ?

Highlights: The United States has cotton to sell to world customers, most of whom, especially in Europe, have but limited means for obtaining credit. The only way out, under the existing set-up, is to sell cotton for gold or to trade cotton for goods or services.

Because of declining gold supplies many of the cotton-buying nations hardly could continue for long to pay gold. Because of high tariffs they all find it difficult to sell their products to America and thereby get dollars to pay for cotton. The United States cannot be expected to extend further credit by means of additional loans to those nations whose former loans are overdue and unpaid.

American exports of cotton in 1933-34 and 1934-35 have fallen, but they haven't fallen further than foreign consumption of American cotton. Stocks of American cotton are being depleted abroad, and it will soon be necessary for foreign countries to increase their imports of American cotton, or greatly reduce their consumption of American cotton.

Germany and Italy, because of exchange troubles, have been forced to reduce total cotton imports in the current year, and they may continue to use less. They are producing substitutes which serve, in the circumstances, but they are more expensive than cotton and inferior to cotton in strength. The only way to increase cotton trade with them is to increase purchases of their products.

The United Kingdom is losing a part of its foreign markets to Japan and is, therefore, reducing consumption of all cotton.

Russia is striving to produce cotton for its own needs, and will probably play no important part in world trade in raw cotton or cotton goods for several years at least.

Japan is consuming more and more cotton, but Japanese mills can mix Indian cotton with American in the same yarn, and must sell abroad on a price basis.

I. Consumption as a Measure of Foreign Markets

Exports for a short period do not necessarily show a true picture of consumption of goods which may be stored, for the same reason that the home does not use all the goods in a day that are bought by the housewife at a special sale. The larder is very likely to vary from being full to being almost empty, while the family continues to eat about the same amount day after day.

Exports Unduly Inflated at Low Price.—Consumption is a better measure of the condition of foreign markets. A glance at the accompanying table (p. 6) shows that foreign consumption of American cotton and American exports have never been equal in any 1 year in the past 14. In a number of years exports and foreign consumption have moved in the same direction, but in other years exports have increased while consumption has decreased and vice

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versa. The table also shows that large foreign purchases were made in years when prices were relatively low, and were held for use in later years, when prices were higher. In 1926-27, when the price declined from an average of $19\frac{6}{10}$ cents per pound to producers in the previous year, to $12\frac{1}{2}$ cents, the United States shipped over 2 million bales more than were used abroad. The following year, when the price rose to an average of $20\frac{2}{10}$ cents, foreign mills used $11\frac{1}{3}$ million bales of American cotton more than was exported. In the 3 years 1930-31 to 1932-33, America exported at low prices approximately $21\frac{1}{3}$ million bales in excess of foreign consumption. The cotton now being used is enabling foreign customers to remain out of the market.

Which Is the More Important—Volume or Dollars?—A few examples from recent years will throw some light upon this question.

Crop year	Exports	Farm price	Farm value of exports ¹	Acreage required to produce exports
	<i>1,000 bales</i>	<i>Cents</i>	<i>Millions</i>	<i>Thousands</i>
1924-25-----	8,005	22. 9	\$916. 6	23, 190
1926-27-----	10, 927	12. 5	682. 9	27, 063
1927-28-----	7, 542	20. 2	761. 7	22, 254
1931-32-----	8, 708	5. 7	248. 2	19, 634
1932-33-----	8, 419	6. 5	273. 7	23, 262
1933-34-----	7, 534	9. 7	365. 4	17, 314

¹ Farm value, deflated by an index of wholesale prices, is available from the Bureau of Labor Statistics.

These figures indicate that large exports do not necessarily bring large cash returns. An *increase* of nearly 3 million bales in exports in 1926-27 over 1924-25 brought 234 million dollars *less* to the cotton producers. Nine hundred thousand *fewer* bales in 1933-34 under 1932-33 sold for about 92 million dollars *more*.

Shall American Cotton Farmers Waste Their Land and Effort?—The 1924-25 exports, which returned 234 million dollars *more* than in 1926-27, required nearly 4 million acres *less* for their production. *Less* cost *more* land for food and feed crops—and *greater* cash return go hand in hand. The 1932-33 exports, 885,000 *more* bales than the following year, took nearly 6 million *more* acres to produce, but brought 92 million dollars *less* revenue to the farmer.

II. World Conditions

For a hundred years, cotton has linked the United States with the rest of the world. The United States was a debtor nation and owed many millions of dollars to bondholders in Europe. American tourists spent much money and foreigners sent hundreds of millions of dollars back each year to their former homes. To make it possible to send all of this money abroad it was necessary to export much more goods than were imported.

Cotton Helped Hold Trade Balance.—Cotton was the biggest single export commodity. Before the war a short cotton crop was unfortunate for the United States, because that might mean the Nation would have to export gold instead of cotton. In those days

export of gold undermined the base of the credit structure, and hard times were likely to follow soon thereafter unless the short crops brought exceptionally high prices.

Dollars for Foreign Trade are Scarce.—Today this is a creditor nation to a greater extent than it was a debtor nation before the World War. The foreigners within its borders send away less than half as much as they did before the war, and tourists spend very little. American tariffs, in spite of the foreign-trade agreements, are still higher than they were before the war. All of this means that it is becoming more difficult for foreign nations to get dollars with which to buy American cotton.

Other Nations Fight for Trade.—The two things that most affect America's foreign trade in cotton are restrictions on the supply of foreign exchange in Germany and Italy and the complete control of the economic life of Russia by the central government, and the fight for export markets for cloth by Japan.

The first is reducing European consumption of all cotton, but more particularly the consumption of American cotton. The unbalanced trade between the United States and Europe has caused a continual flow of gold to this country, amounting to approximately a billion dollars in the year 1934.

The second is shifting the center of the cotton trade from Western Europe to the Far East, and is tending to balance the loss of American cotton exports to the United Kingdom.

III. Conditions in Europe

Yearly exports are not a satisfactory figure for measuring foreign markets. Other aspects also must be considered.

Germany.—Germany is normally a highly industrialized nation with a shortage of land and natural resources. It must, therefore, import raw materials in large volume, and export finished goods in volume, to balance its trade on a prosperous level. Tariff walls were raised by other nations, which would not accept German manufactures in payment for raw materials exported to Germany.

Exchange Restrictions.—This strain on trade has seriously affected Germany's international trade balances. Efforts were made to produce substitutes for some of the imported raw materials; restrictions were laid on the supply of foreign exchange for many imported goods; very complex "clearing agreements" with some 20 countries have been instituted, by means of which specific German goods were bartered, or swapped, for specific amounts and kinds of goods of other countries.

What about Vistra?—This fiber, similar in production and nature to rayon, is produced in Germany and used as an adulterant, rather than as a substitute fiber for cotton and wool. Production in 1934 was 10,000 metric tons, equal to approximately 50,000 bales of cotton. It is planned, according to recent reports, to have productive capacity increased to around 70,000 metric tons, equal to approximately 350,000 bales of cotton by the spring of 1936.

Germany Buys Cotton for its Neighbors.—Germany has been a major reshipping country for cotton, its warehouses, credit facilities and merchants in the past supplying services to the smaller countries in

Northern and Central Europe. Reported mill consumption of American cotton in Germany, for the period 1920-21 to 1933-34 amounted to approximately 56 percent of American exports to Germany (both in running bales).

Germany Decreases Imports—Increases Consumption.—Although exports to Germany in 1933-34 were some 530,000 bales less than in 1932-33, and the lowest since 1923-24, consumption increased by 133,000 bales, and was the highest since 1927-28, and the third highest since the war. The United States loaned Germany almost 3 billion dollars, during the 1920's—and then ceased abruptly to lend in 1930. Since the loans could not be repaid, the United States was, in effect, giving its goods to Germany.

It has been difficult for German manufacturers to buy American cotton because of exchange difficulties and because of restrictions placed upon imports by the German Government. However, at 3 cents a pound, Germany could again take more than a million bales of cotton, as no increase in exchange would be required. Would the cotton growers of any area in the United States care to contribute this 3-cent cotton in order to maintain exports to Germany?

United Kingdom.—British mills were operating at very high levels during the middle 1920's, consuming some $9\frac{1}{5}$ million running bales in the 3 years 1924-25 to 1926-27. In the 3-year period 1930-31 to 1932-33, mill consumption was down to a total of $6\frac{2}{3}$ million bales, a decline of 28 percent.

Depression Hits Textile Industry.—The British textile industry has been in a severe depression. Whereas employment as a whole was at its highest point in 1934 since the summer of 1930, textile employment was less than it had been. There have been some 10 million spindles idle. For the three seasons 1931-32 to 1933-34, American cotton was about 59 percent of all cotton used in British mills, representing a decline from approximately 69 percent before the depression.

Why Did the United States Lose Its Relative Position?—Much cotton is grown in the British Empire and in other countries on plantations controlled by British capital. Pressure has been brought to bear to induce "British Preference"; that is, in times of diminished world trade, to concentrate as much trade as possible within the Empire.

France.—French mill consumption has held remarkably steady for the entire period since 1920-21, and America's proportion of the total has shown but slight variation. An excellent illustration of the failure of exports to reflect consumption is shown by the comparison of the seasons 1929-30, 1930-31, and 1931-32. The exports in these years were: 812 thousand, 914 thousand, and 463 thousand bales, making a total of $21\frac{1}{5}$ million bales. In the same years, consumption of American cotton was 728,000, 710,000, and 571,000 bales, totaling over 2 million bales. The American percentage of the total consumption *increased* slightly each year, being $62\frac{2}{10}$, $63\frac{3}{10}$, and 64 percent.

Italy.—In Italy, also, a controlled economy is in operation. In the past, cotton consumption has not varied widely, and America's proportion of the total has been consistently high. Quotas to re-

strict imports and the outflow of gold, and similar drastic exchange restrictions were imposed in May 1934.

Imports of American cotton were down 155,000 bales, but consumption fell only 38,000 bales, imports being still 10,000 bales above current consumption in 1933-34. Although the relative position of American cotton in Italian consumption fell from 78 $\frac{1}{10}$ percent to 73 $\frac{1}{10}$ percent, this percentage is higher than in any other year since 1920-21, with the exception of 1932-33, and 74 $\frac{1}{10}$ percent in 1927-28.

Substitutes Forced upon People.—Efforts to provide substitute fibers led to the development of "Snia-Fiocco", a staple of the nature of rayon, imitating cotton, linen, and wool; and to the processing of hemp. Tariffs on imported cotton are used to encourage the consumption of substitute fibers. The import levy on American cotton, including duty, special tax, and surtax, as of April 1, 1935, amounted to 5 cents per pound.

Minor Countries.—The consumption of cotton in minor European countries has held up remarkably well during the depression, and some of them used more in 1933-34 than in any year since 1925-26.

IV. Conditions in Eastern Countries

Russia.—Cotton developments in Russia are, in the main, non-economic. Present indications are that Russia will be a minor factor in the cotton trade of the world for some years to come. It is at present engaged in developing cotton production and mill capacity, and will probably depend on its own resources for supply and will be able to consume the entire production.

It is very easy to be misled on Russian cotton statistics. Russian acreage has risen from 174,000 acres in 1922-23 to 4,764,000 in 1934-35, and production has risen from 43,000 bales in 1921-22 to 1,937,000 bales in 1934-35. However, back in 1915, Russia produced upward of 1,500,000 bales.

China.—China is one of the few major countries which produce as well as consume large quantities of cotton. It commonly produces more than 2,200,000 bales and imports only to meet its additional needs, allowing for a small amount of exports.

In 1931-32 there was an unusually short crop due to the Yangtze flood (about 670,000 bales below the previous year), and much of that did not move to market because of the fighting at Shanghai. India also had a short crop, 1,000,000 bales less than the previous year. This, together with the low American price, forced the price relationship to favor American cotton. Mainly as a result, American exports to China jumped from 429,000 to more than a million bales. Consumption of American cotton increased only 521,000 bales, leaving large stocks on hand. The next year, 1932-33, while imports from America had fallen to 300,000 bales, consumption declined only 135,000 bales, and was still more than double the next highest year since 1920-21.

Japan Owns Many Chinese Spindles.—One should note that 41 of the 136 mills operating in China are owned by Japanese interests, and the percentage of Japanese spindles is even greater. As a result

exports to and consumption of American cotton in Japan and China are not readily separated, since some is diverted or reshipped to Japanese-owned mills in China.

Japan.—Markets for cotton goods, formerly supplied by the United Kingdom, have been extensively invaded by Japan. There are a number of reasons for this, among them being the greater depreciation of the yen than the pound, lower wage levels, and better textile machinery.

This is another case where exports do not measure the position of American cotton accurately. In 1931-32, Japan took more than a million bales more than in the preceding year, but consumed only 630,000 bales more of American cotton. The following year exports to Japan fell 550,000 bales, but consumption increased by 210,000 bales, amounting to about 61 percent of the total cotton consumed for the year in Japanese mills.

For the 10 months ending May 31, 1935, American exports to Japan totaled 1½ million bales, an amount 97,000 bales greater than the total American cotton shipped to the United Kingdom in 1933-34. In 1928-29 British mills used only 34,000 running bales more than Japanese mills. Since that season, Japanese consumption has been above British in every year. The totals for the 5 years, 1929-30 to 1933-34 are: Japan 14½ million bales, United Kingdom 11½ million.

Boycott Settled; Cheap Markets Sought.—The Indian boycott of Japanese goods and the Japanese retaliation by refusal to buy Indian cotton was one of the causes of America's abnormally large exports to Japan in 1931-32. The price relationship between Indian and American cotton was another factor. That dispute has been settled and Japan has agreed to take up to 1½ million bales in return for India's taking up to 400 million yards of cloth.

EXPORTS AND FOREIGN CONSUMPTION AMERICAN COTTON, 1921-22 TO 1934-35

[All figures in 1,000 running bales]

Crop year	Foreign consumption of foreign cotton	Foreign consumption of American cotton	Indicated change in foreign stocks of American cotton	Exports from United States	Price per pound to United States producers
					<i>Cents</i>
1921-22-----	8, 129	7, 142	-958	6, 184	17. 0
1922-23-----	9, 178	6, 343	-1, 520	4, 823	22. 8
1923-24-----	9, 071	5, 747	-91	5, 656	28. 7
1924-25-----	9, 814	7, 353	+652	8, 005	22. 9
1925-26-----	10, 726	7, 560	+491	8, 051	19. 6
1926-27-----	10, 110	8, 897	+2, 030	10, 927	12. 5
1927-28-----	9, 898	8, 872	-1, 330	7, 542	20. 2
1928-29-----	10, 561	8, 288	-244	8, 044	18. 0
1929-30-----	11, 937	7, 212	-522	6, 690	16. 8
1930-31-----	11, 425	5, 817	+943	6, 760	9. 5
1931-32-----	9, 903	7, 572	+1, 136	8, 708	5. 7
1932-33-----	10, 076	8, 167	+252	8, 419	6. 5
1933-34-----	11, 439	7, 985	-451	7, 534	9. 7

Source: Cotton Statistics and Related Data for Agricultural Workers (Oct. 29, 1934, Revision), Myers and Cooper. Bureau of Agricultural Economics.

V. Methods for Moving American Cotton in World Markets

The United States has cotton to sell to world customers most of whom, especially in Europe, have but limited means for obtaining credit. The only way out, under the existing set-up, is to sell cotton for gold or to trade cotton for goods or services.

Because of declining gold supplies, many of the cotton-buying nations hardly could continue for long to pay gold. Because of high tariffs they all find it difficult to sell their products to America and thereby get dollars to pay for cotton. The United States cannot be expected to extend further credit by means of additional loans to those nations whose former loans are overdue and unpaid.

Trade Agreements Possible.—These propositions indicate the difficulty of maintaining either cash or credit sales of cotton in any great volume. Another feasible method might be by accepting some specific raw materials or products from certain foreign nations in exchange for cotton.

Reciprocal trade agreements affecting cotton can be negotiated with any great degree of success as to volume only with those countries which consume large quantities of the staple in the manufacture of textiles, mainly England, Italy, and Germany.

Suggestions that the United States definitely allot a fixed share of its import income credit directly for the purpose of moving cotton into foreign trade channels also have been advanced.

World Supplies of American Cotton Reduced.—While there has been an increase in foreign production at the same time as American exports decreased in 1933-34 and in 1934-35, foreign consumption of American cotton has been in excess of the amount exported. This has served to deplete stocks of American cotton held abroad and it soon will be necessary for foreign countries to increase their imports of American cotton or greatly reduce their consumption of American cotton.

In explanation of why current exports of cotton are less than normal, the changing conditions facing the cotton industry in foreign markets must, of necessity, have some bearing. Briefly then, in summing up, the following facts are apparent:

Other Nations Face Difficulties.—Germany and Italy, because of exchange troubles, have been forced to reduce total cotton imports in the current year and they may continue to use less. They are producing substitutes which serve, in the circumstances, but they are more expensive than cotton and inferior to cotton in strength. The only way to increase cotton trade with these countries is to increase purchases of their products.

The United Kingdom is losing a part of its foreign markets to Japan and is therefore reducing consumption of all cotton.

Russia is striving to produce cotton for its own needs, and will probably play no important part in world trade in raw cotton or cotton goods for several years at least.

Japan is consuming more and more cotton, but Japanese mills can mix Indian cotton with American in the same yarn, and must sell to the more backward countries on a price basis.

Control Necessary in Future.—In the past America's foreign cotton trade has been accepted as a matter of course. From season to season it might increase or decrease, with little, if any effort at control. As a result world markets had to contend with wide variations in the American cotton supply which might be anything from a depressive surplus at one time to a price stimulating shortage at another.

Factors Essential to Successful Trade.—With cotton it would seem that the United States must face a decision upon which to base its foreign-market policy. To do this it should determine:

1. How much cotton should be grown for sale abroad?
2. At what price it can be sold?
3. Which countries can be expected to buy?
4. On what terms and by what means shall these countries pay the United States for its cotton?

These four questions are dependent upon each other and are of primary importance to cotton growers interested in foreign trade. Upon the answers depends much of the possible success or failure of the future cotton program. Definite information is necessary upon which to base the decisions that will enable the development of this program.

SUGGESTED REFERENCES

The following publications may be secured from the sources below as long as supplies are available:

- "The World Cotton Situation", Bureau of Agricultural Economics, United States Department of Agriculture, Washington, D. C. (Free.)
- "Cotton Production in the Anglo-Egyptian Sudan", F.S.-62; Bureau of Agricultural Economics, United States Department of Agriculture, Washington, D. C. (Free.)
- "Cotton Production in Southern Brazil", F.S.-63; Bureau of Agricultural Economics, United States Department of Agriculture, Washington, D. C. (Free.)
- "Cotton Production in Egypt", Technical Bulletin No. 451, Superintendent of Documents, United States Government Printing Office, Washington, D. C. 5 cents.¹
- "The Cotton Program Carries On", address by Henry A. Wallace, April 13, 1935; Press Service, Office of Information, United States Department of Agriculture, Washington, D. C. (Free.)
- "Credits and Debits of the Cotton Program", address by Chester C. Davis, August 13, 1935; Correspondence, Records, and Printing Section, Division of Information, Agricultural Adjustment Administration, Washington, D. C. (Free.)
- "Cotton" (Current Information Statement No. 2), by Cully A. Cobb, Regional Contact Section, Division of Information, Agricultural Adjustment Administration, Washington, D. C. (Free.)
- "Cotton Production Adjustment", Nos. 12 to 18 and Nos. 20 and 22; Cotton Section, Agricultural Adjustment Administration, Washington, D. C. (Free.)

¹For sale by the Superintendent of Documents, Washington, D. C. Postage stamps cannot be accepted in payment.